

Message Text

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PAGE 01 CONAKR 00884 051324Z

ACTION AF-10

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-05 H-01 INR-10

L-03 NSAE-00 NSC-05 PA-01 SP-02 SS-15 ICA-11

AID-05 COME-00 EB-08 FRB-03 TRSE-00 XMB-02

OPIC-03 LAB-04 SIL-01 OMB-01 INT-05 DOE-15 SOE-02

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FM AMEMBASSY CONAKRY

TO SECSTATE WASHDC 4287

INFO AMEMBASSY LAGOS

AMEMBASSY MONROVIA

C O N F I D E N T I A L CONAKRY 0884

E.O. 11652: GDS

TAGS: EINV, EMIN, GV, US

SUBJECT: STATUS: MIFERGUI-NIMBA IRON ORE PROJECT

REF: CONAKRY 679

1. MIFERGUI-NIMBA PARTNERS AND MIFERGUI-NIMBA STAFF ARE CURRENTLY TAKING AN OPTIMISTIC VIEW OF PROJECT'S PROSPECTS.

2. NIGERIAN AMBASSADOR UCHUNO TOLD AMBASSADOR THAT MIFERGUI-NIMBA PLANS ARE MOVING FORWARD WELL AND PARTNERS ARE VIRTUALLY SURE U.S. STEEL (USS) WILL PARTICIPATE. THIS VIEW IS PARTLY ON BASIS OF PRACTICAL FINANCING PLAN USS SUBMITTED ON APRIL 21. MIFERGUI-NIMBA STAFF SOURCE POINTED OUT THAT USS PLAN SHIFTED GREAT PART OF PROJECT'S EXPENDITURES TO "INFRASTRUCTURE". SINCE GOVERNMENT WILL FINANCE INFRASTRUCTURE THIS PERMITS CHEAPER, LONGER-TERM FINANCING THROUGH CONCESSIONARY LOANS BY DEVELOPMENT BANKS FOR LARGER PORTION OF PROJECT'S COST. THIS STRATEGY WILL HOPEFULLY ALSO PERMIT LOWER EQUITY INPUT BY CLASS B PARTNERS THUS INCREASING THEIR FINANCIAL LEVERAGE.
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PAGE 02 CONAKR 00884 051324Z

UNCHUNO ASSERTED AND MIFERGUI SOURCE CONFIRMED THAT GOG HAS AGREED TO \$280 MILLION INFRASTRUCTURE. ACCORDING TO MIFERGUI SOURCE, LIBERIA HAS ALSO GIVEN INFORMAL ASSENT TO ITS PROPOSED \$170 MILLION INFRA-STRUCTURE CONTRIBUTION.

3. UCHUNO CLAIMED THAT MIFERGUI-NIMBA ORE WILL COST

\$6 PER TON AT GUINEA-LIBERIA BORDER AND GAVE APPARENTLY OPTIMISTIC QUOTE OF \$3.20 PER TON TRANSPORTATION COST TO BUCHANAN PORT, PUTTING FOB PRICE AT \$10 PER TON. HOWEVER, MIFERGUI SOURCE, WHO WE BELIEVE IS CLOSER TO ACTUAL SITUATION, PUT TRANSPORT COST AT ROUGHLY \$4.30 PER TON. HE STATED PRICE IS MADE UP OF 3 COMPONENTS: FIRST IS AVERAGE AUDITED COST OF TRANSPORT PER TON OF ORE VIA LAMCO FACILITIES; THIS WAS \$2.71 PER TON FOR 1976 AND SHOULD DROP WITH EXPANSION OF FACILITIES DUE TO ECONOMIES OF SCALE. SECOND COMPONENT IS MANAGEMENT FEE EQUAL TO 10 PERCENT OF FIRST COMPONENT. THIRD COMPONENT IS FLAT PER TON FEE AS "COMPENSATION FOR USE OF CURRENT FACILITIES". NEGOTIATIONS OF THIS FEE ARE IN FINAL STAGE BEING CONDUCTED PRIVATELY BY CHAIRMEN OF LAMCO AND MIFERGUI. LAMCO'S LAST OFFER WAS \$1.35 AGAINST MIFERGUI LAST OFFER OF \$0.58. ABOVE IMPLIES ESTIMATED TOTAL COST OF ROUGHLY \$4.30 PER TON ALLOWING FOR INFLATION, ADJUSTMENTS IN FORMUALS, ETC. BY RECKONING OF UCHUNO OR MIFERGUI SOURCE, FOB PRICE SHOULD BE BELOW CURRENT WORLD MARKET.

4. MEETING OF REPRESENTATIVES OF ALL PARTIES IS SCHEDULED FOR MAY 11 IN WASHINGTON TO DISCUSS PROJECT PROGRESS AND FINANCING. ONE REP. OF IBRD, USS, KAISER ENG., MIFERGUI PARTNERS B (TO BE USINOR REP.), GOG (PROBABLY CONFIDENTIAL

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PAGE 03 CONAKR 00884 051324Z

SEKOU OUMAR KEITA, MIFERGUI-NIMBA CHAIRMAN, AND POSSIBLY ARSEN PENSA, (KEITA'S EXPATRIATE DOUBLE) WILL ATTEND.

5. COMMENT: ABOVE REPORTS INDICATE THAT PROBLEMS OF PRICE FOR ORE SHIPMENT ARE CLOSER TO RESOLUTION AT SATISFACTORY PRICE. USS FINANCING PLAN HAS BEEN WELL RECEIVED AND IF ACCEPTABLE TO BANKS (COMMERCIAL AND OTHERS) COULD REDUCE PROJECT COST. IT IS POSSIBLE THAT COMMERCIAL BANKS, SEEING COST REDUCTIONS, WILL BARGAIN HARDER, THUS DENYING PROJECT PARTNERS ALL OF SAVINGS IMPLIED BY USS PLAN.

6. CARRIAGE OF MIFERGUI ORE WILL BENEFIT LAMCO SUBSTANTIALLY BY: (1) LOWERING OVERALL UNIT COSTS DUE TO ECONOMIES OF SCALE AND; (2) ADDITION OF MORE MODERN EQUIPMENT MADE POSSIBLE BY MIFERGUI BUT USED BY BOTH PROJECTS. MANAGEMENT FEE AND FLAT FEE ARE ALMOST PURE PROFIT. IF LAMCO CARRIES PROJECTED 15 MILLION-TON OUTPUT OF MIFERGUI ITS COFFERS SHOULD GAIN AT LEAST \$15-20 MILLION PER YEAR.
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